



The Real Estate ANALYST

FEBRUARY
1945

Roy Wenzlick
Editor

A concise easily digested periodic analysis based upon scientific research in real estate fundamentals and trends...Constantly measuring and reporting the basic economic factors responsible for changes in trends and values....Current Studies.... Surveys....Forecasts

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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

VOLUME XIV

FURTHER PROOF OF INFLATION

CHESTER BOWLES, OPA Administrator, is urging the United States Senate not only to continue rent control of dwelling units but also to control commercial rents and rural real estate prices. "Absence of control over the prices of real estate, urban and rural, is bringing about a boom in this field reminiscent of the lush twenties, a boom which can have a disastrous effect upon an important segment of our economy." He stated in appearing before the Senate Banking and Currency Committee he was much concerned with the fact that equities in residential properties have shown a dangerously inflationary rise, and that the inflation of real estate prices would undermine the mortgage structure of the United States. According to his statement, the longer the real estate sales market remains without any control, the more difficult it will become to hold rents steady, as evictions caused by sales have shown "an alarming increase."

We can find little to criticise in Chester Bowles' statement of facts. Undoubtedly, the prices of real estate have been rising and will continue to rise. The number of sales per thousand families, both in cities and farms, has increased rapidly and many tenants enjoying rents which were frozen at too low a level have been presented with an eviction notice stating that the house has been sold.

The difficulty, however, is not a difficulty of real estate. The OPA, and for that matter the entire government, is attempting to treat symptoms and not fundamental causes. A soothing lotion is recommended to ease a pain caused by cancer. The real cause of rising prices of real estate, of stocks, and of all other items is the "multiplication of dollars" to finance the war.

This multiplication of dollars consists in an increase in actual currency and an increase in bank credit. The chart on page 45 shows the increase in currency and coin from 1933 to the present. On this chart each denomination of money is charted separately.

In 1939 total currency in circulation equalled \$7.6 billion. In December of 1944 it totaled \$25.3 billion. This is three and one-third times as much currency in circulation as we had at the beginning of the war. At the present time the amount of currency in circulation is increasing at the rate of five billion a year.

By studying this chart it will be seen that all denominations of currency have shown some increase, but the biggest percentage increase has come in \$100
(continued on page 44)

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bills. In 1939 there were slightly more than 900 million dollars worth of \$100 bills in circulation. In December of 1944 there were more than four billion dollars worth of \$100 bills in circulation.

Both the OPA and the Internal Revenue Bureau are very much worried about this increase in larger denomination bills, as it is probably accounted for by black market sales and by transactions in cash, designed primarily to elude income tax payments. Bills of \$100 and over are used in black market operations to take care of the excess price above the ceiling. In operations of this sort the goods is paid for at the ceiling price by check. The additional premium price is paid in cash.

A small part of the increase in the circulation of bills of larger denominations is due to the hoarding of cash by individuals. Only a very small part of the increase in money in circulation is due to increased payrolls and increased prices. In our opinion the quantity of money in circulation will continue to increase for the next few years.

The real problem of inflation, however, is not primarily the problem of the increase in currency - it is rather the increase in money in use per capita, defining as money everything which does the work of money; in other words, adding to the currency in circulation per capita the bank deposits per capita.

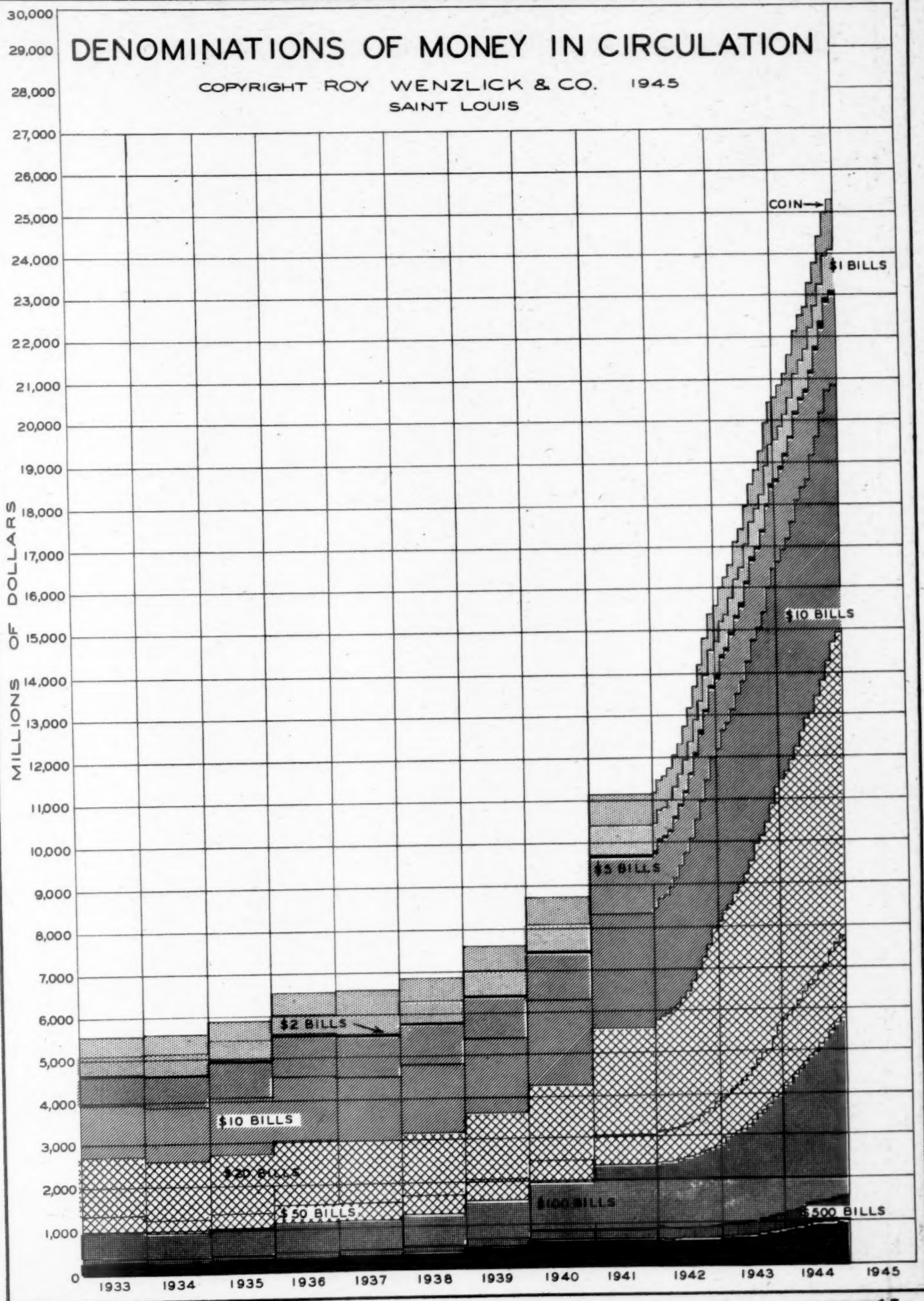
The long chart on pages 52, 53 and 54 shows the way "money" per capita has increased from 1860. From this chart it will be noticed that at the beginning of the Civil War about \$40 was the per capita total. When the First World War started in Europe this had risen to about \$225 per capita. At the peak of the credit inflation in 1928 the average per capita "money" ran slightly better than \$490. During the depression of the thirties it dropped to approximately \$350. When the Second World War started it was approximately at the level of 1928, but since that time, and particularly since 1940, it has been rising very rapidly until in 1944 it totaled slightly more than a thousand dollars per capita.

The principal reasons for the big increase in "money in use per capita" are as follows: 1. In the early period in the United States, commercial life was not so highly organized as it is at present. A larger part of our population was living on farms, where the home was to a large extent a self-contained unit, making and consuming its own foodstuffs, clothing and fuel. Very little money was required under this sort of an economic structure. Total production in the United States was relatively low in this period, and accordingly little credit was needed.

2. The difference in price levels in the last twenty years and in the period preceding the Civil War is quite great. In 1928 the cost of living in the United States was 90 per cent higher than it was in 1870. Were all other conditions exactly equal in both years, it would have taken 90 per cent more money or bank credit to take care of the same transactions in 1928.

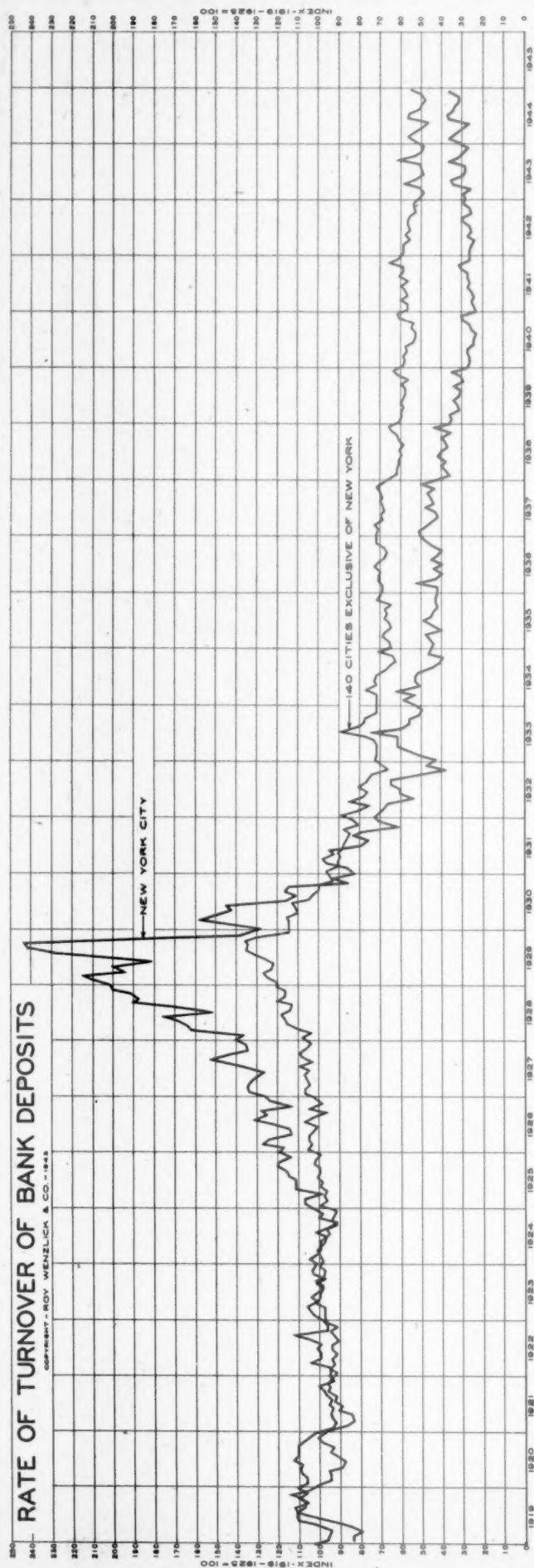
3. The rapid rise since 1940 is due to war expenditures. It will be noticed, however, that the rise started in 1933 at the time of the revaluation of the dollar and of the adoption of other inflationary measures by the New

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RATE OF TURNOVER OF BANK DEPOSITS

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Deal. As usable money has increased as shown on the chart on pages 52 to 54, the rate of turnover, or velocity as it is generally called, has decreased. The velocity of turnover of bank deposits depends largely on confidence, which has been lacking among those who control a large part of the usable money. The chart above shows the relative efficiency with which bank deposits have been used in New York City and in 140 cities, exclusive of New York. In order to understand the illusion of the reduction in the amount of money during a depression and the rapid increase in an inflation, it is necessary to realize that \$100 changing hands frequently may do more money work than \$1,000 hidden in a mattress or other "safe" place. In the same way, an average of \$100 on deposit in an active account in which checks are being drawn daily and deposits made frequently, may do far more money work

than an average of \$1,000 in an inactive account where both checks are drawn and deposits made at infrequent intervals. Bank credit may be hoarded as well as cash.

This index shows the relationship of the total of all checks drawn each month to the average total demand deposits for the month. It measures turnover of bank deposits or the amount of money work which each dollar of bank deposits is doing. It is particularly interesting when considered in connection with the amount of bank credit available at different times.

Any one who studies this chart in connection with the chart on pages 52-54 will be alarmed at the possibility of velocity of turnover increased at some time in the future. If velocity increased to 100 on our index, prices would go through the ceiling. If it were

(continued on bottom of page 47)

INCOME LEVELS AND REAL ESTATE

IN the 1940 Census for the first time information was accumulated on individual incomes. The results of the income questions have just become available, and for 22 metropolitan districts of the United States the FHA has compiled figures by all families and for families living in owner-occupied dwelling units and for tenant families. The typical income distribution in these 22 metropolitan areas is shown by the three charts to the right. These charts would indicate for example that 3½ per cent of all families had incomes of \$5,000 or more per year; 14.4 per cent of all families had incomes of \$3,000 or more per year; 21.6 per cent of all families had incomes of \$2,500 or more per year, etc. A comparison of the owner families and the tenant families will show that a larger number of the higher income families own their own homes.

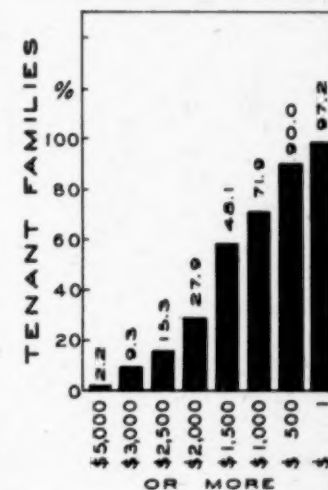
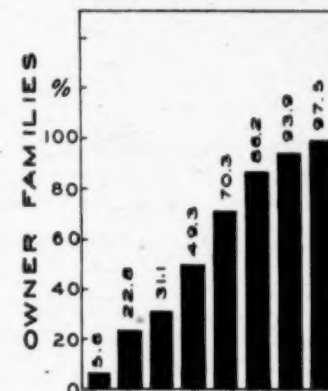
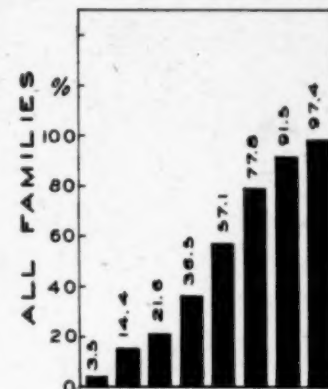
The charts on pages 48 to 51 show the relative picture in the 22 metropolitan areas. On these charts the typical income distribution in all 22 areas is considered as normal. The blue bars on the charts for any city indicate the percentage by which that income classification in that city exceeded the typical of the entire group of areas. The percentage by which it exceeded is shown in figures at the end of the bar.

Wherever red bars occur in these charts it indicates that in that city the number of families in the income classification indicated by the red bar was less than the typical of all cities. The length of the bar and the percentage shown below it indicate the percentage by which the particular city fell below the median of the entire group of cities.

The top chart in the series of three for each city shows all families, the middle chart shows owner families and the bottom chart shows tenant families.

The variation in income levels in the various cities is quite striking and necessarily these variations must be given considerable weight, everything else being equal, in estimating the volume of new construction which can be done for houses of any price grouping.

PERCENTAGE
OF INCOME
DISTRIBUTION



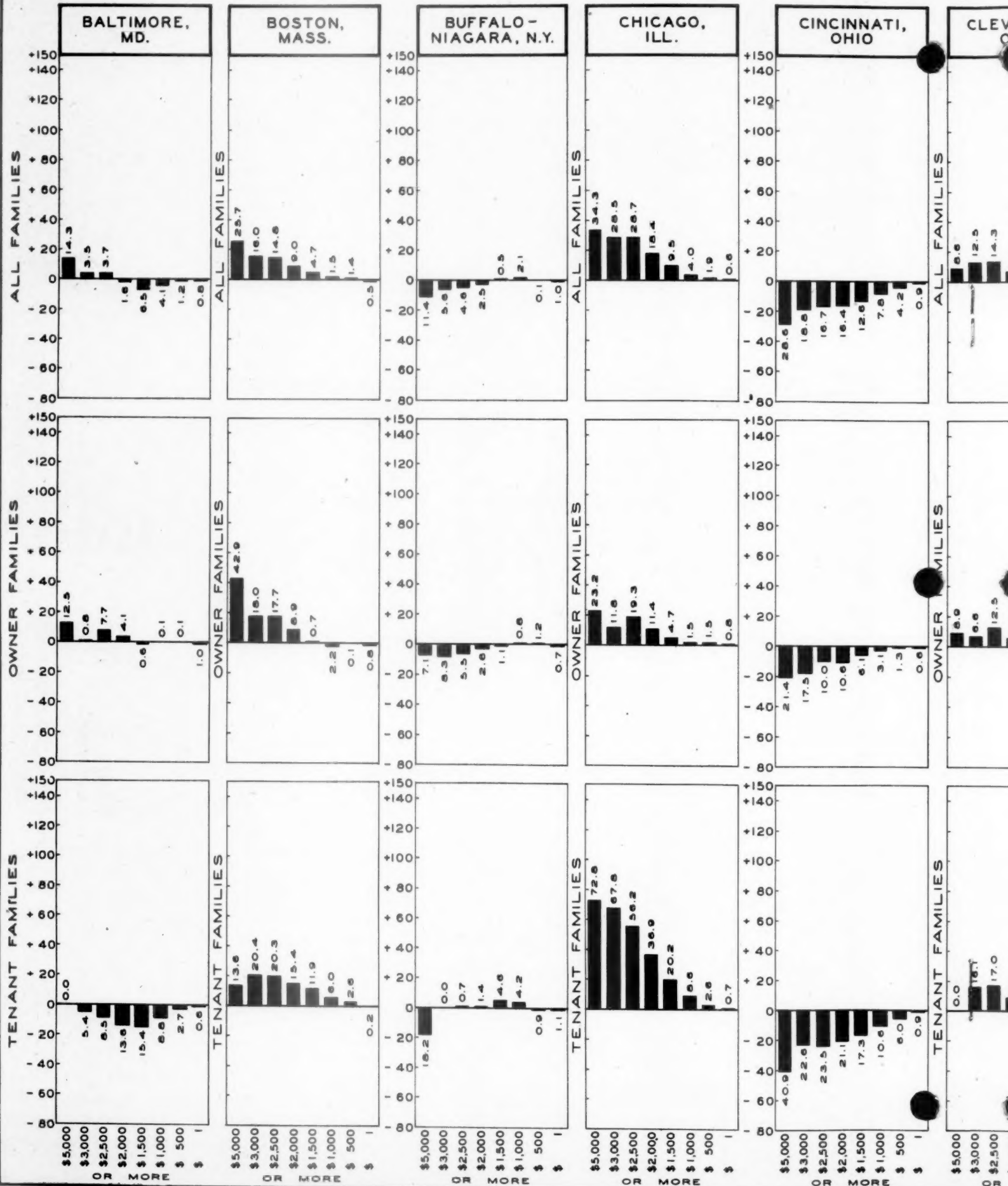
FURTHER PROOF OF INFLATION

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to increase to 200 on the index, the price structure would be out of all possible control.

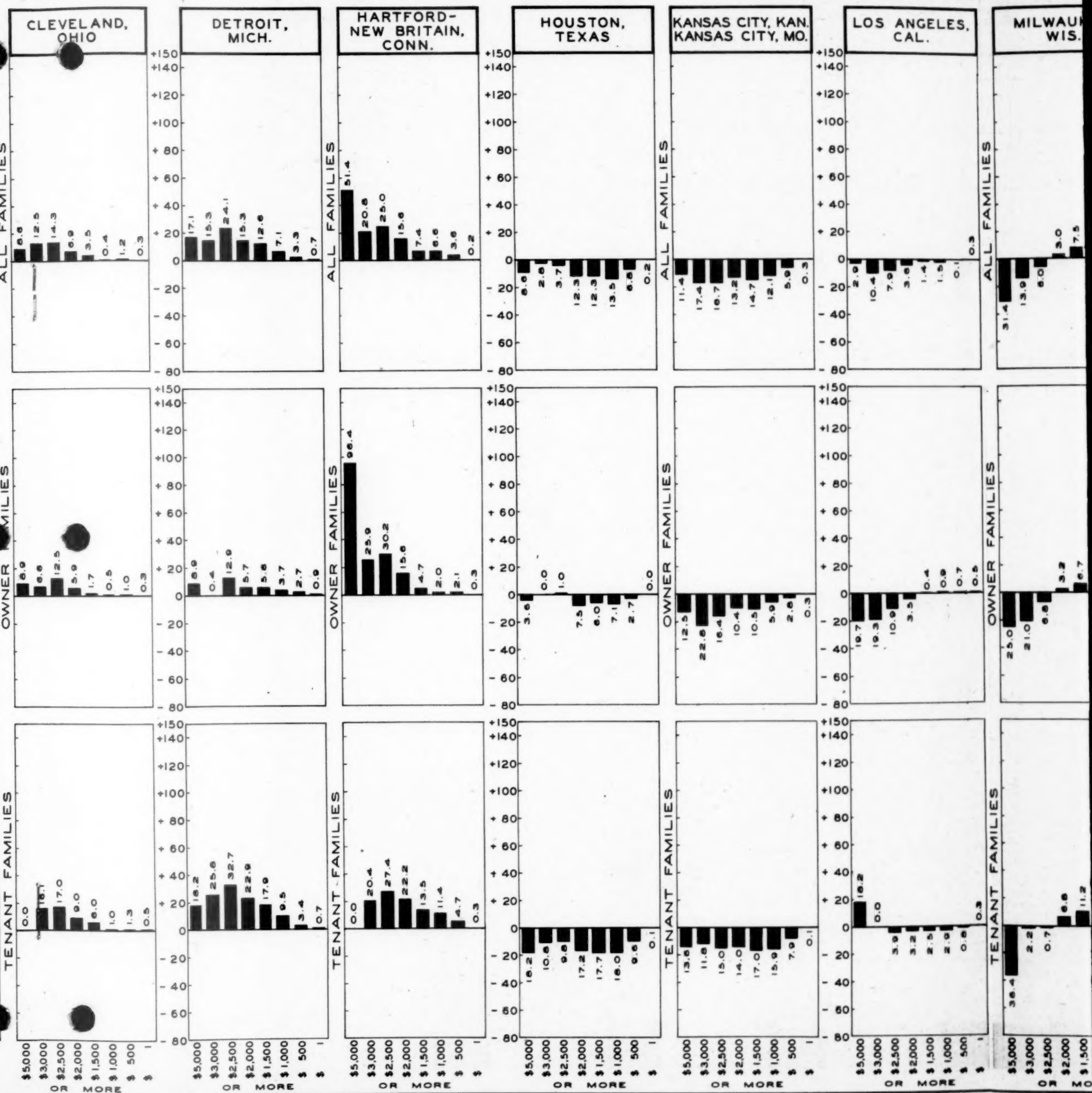
Because of the foregoing, it appears probable that the post-war price level will remain high and that inflation, not deflation, is the real post-war problem. If this be true, any method used to control prices will work only so long as the war lasts. Real estate cannot be confined to its present price level unless our entire economic structure is destroyed and a planned economy with complete control of individual actions replaces our democracy.

INCOME DISTRIBUTION



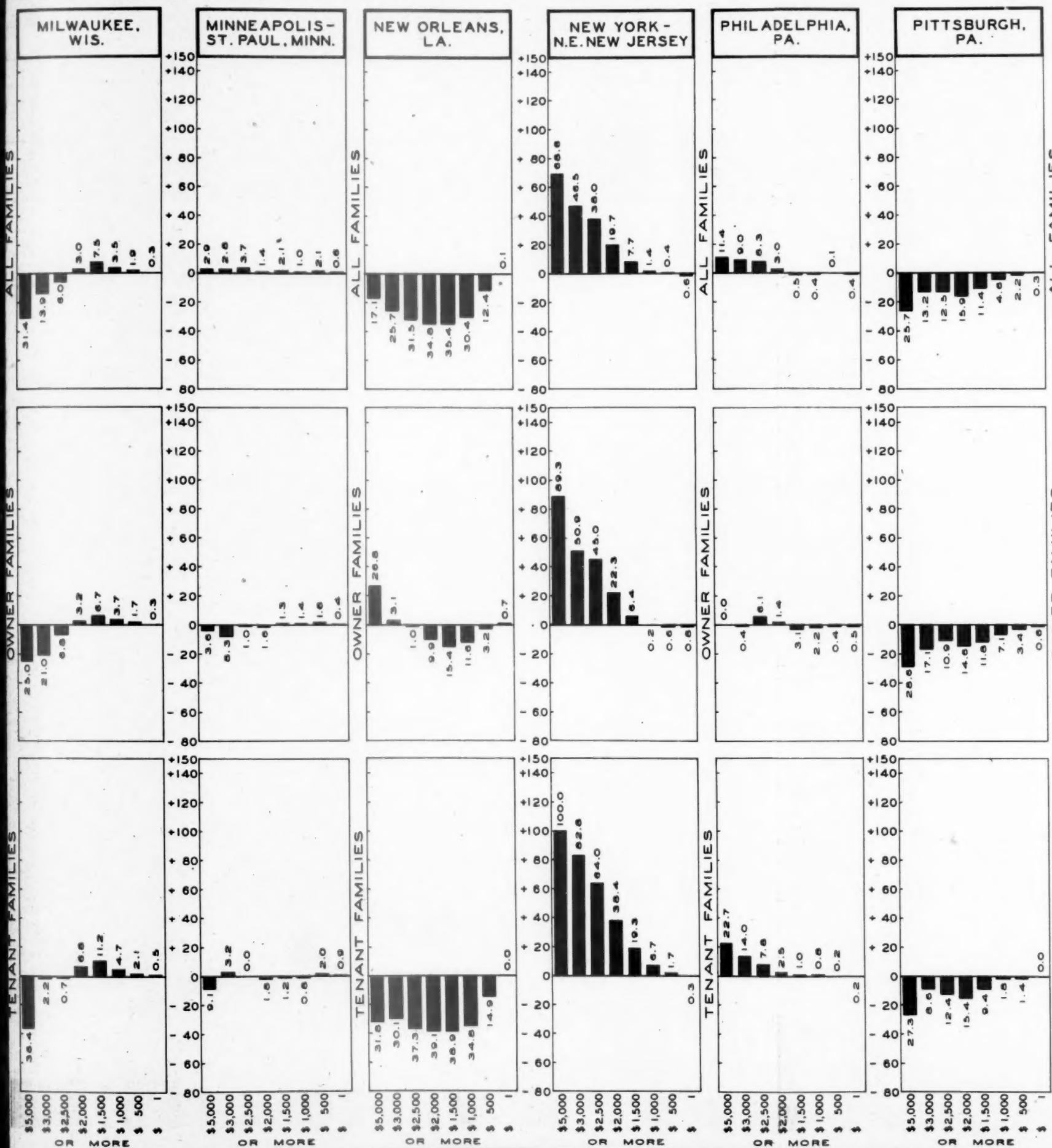
DISTRIBUTION OF FAMILIES IN 22 METROPOLITAN DISTRICTS SHOWN AS

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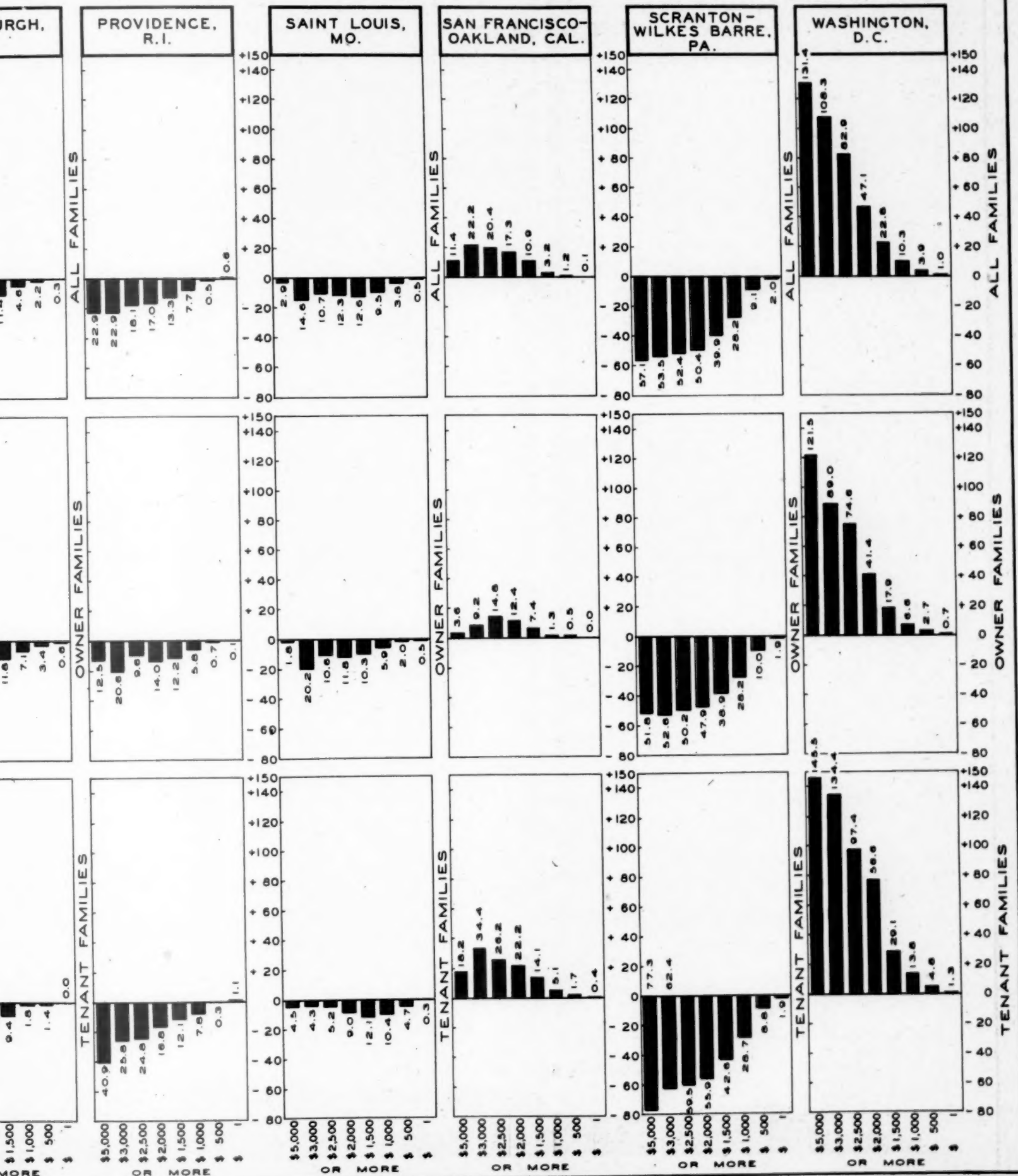


OWNERSHIP AS PERCENTAGE ABOVE OR BELOW THE TYPICAL FOR THE CITY

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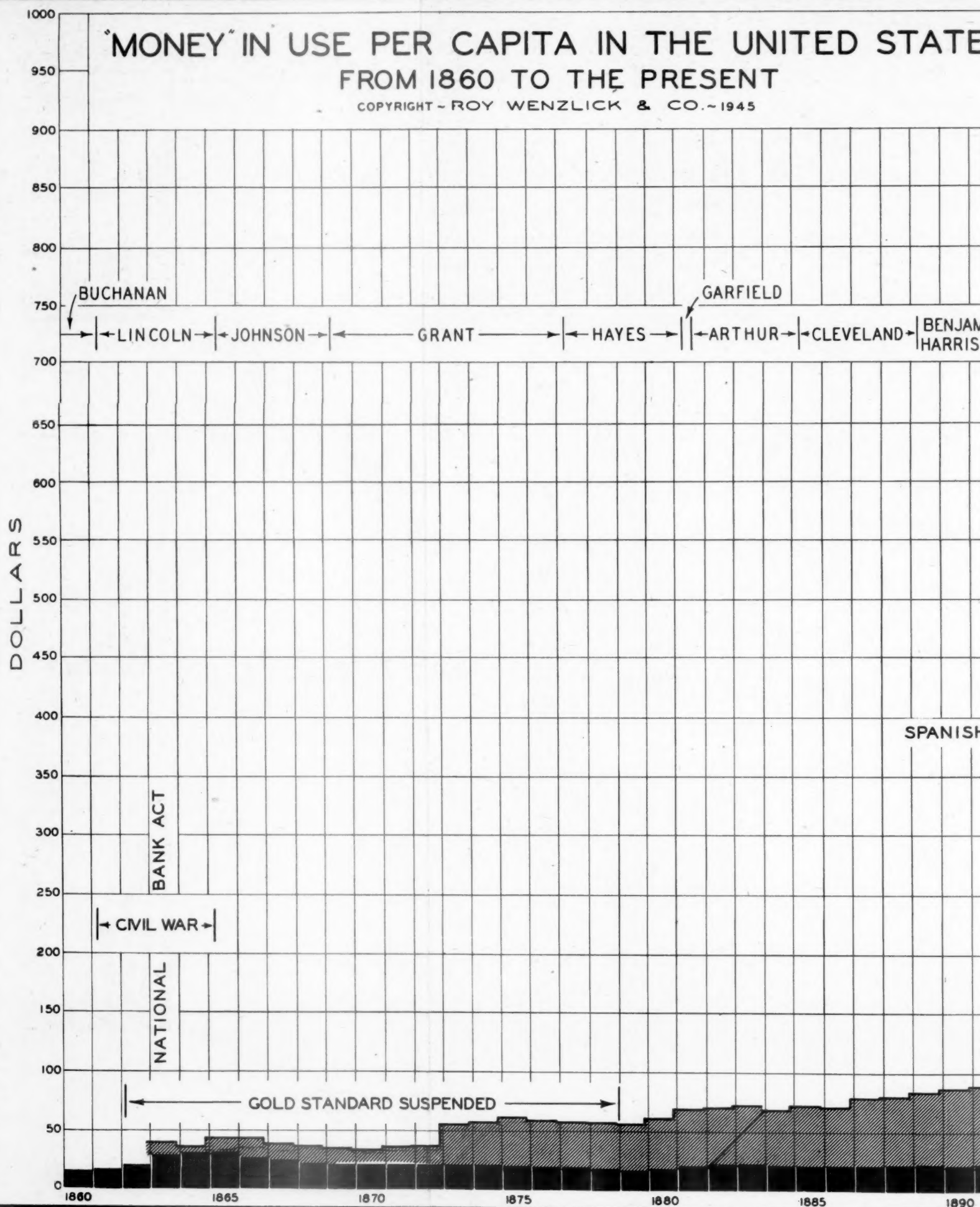


R THE 22 AREAS



"MONEY" IN USE PER CAPITA IN THE UNITED STATES FROM 1860 TO THE PRESENT

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STATES

BENJAMIN HARRISON | CLEVELAND | MCKINLEY | THEODORE ROOSEVELT | TAFT | WILSON | HARDING

SPANISH-AMERICAN WAR | PHILIPPINE WAR

RESERVE SYSTEM ORGANIZED

FEDERAL

WORLD WAR I

BANK

CURRENCY IN

1890

1895

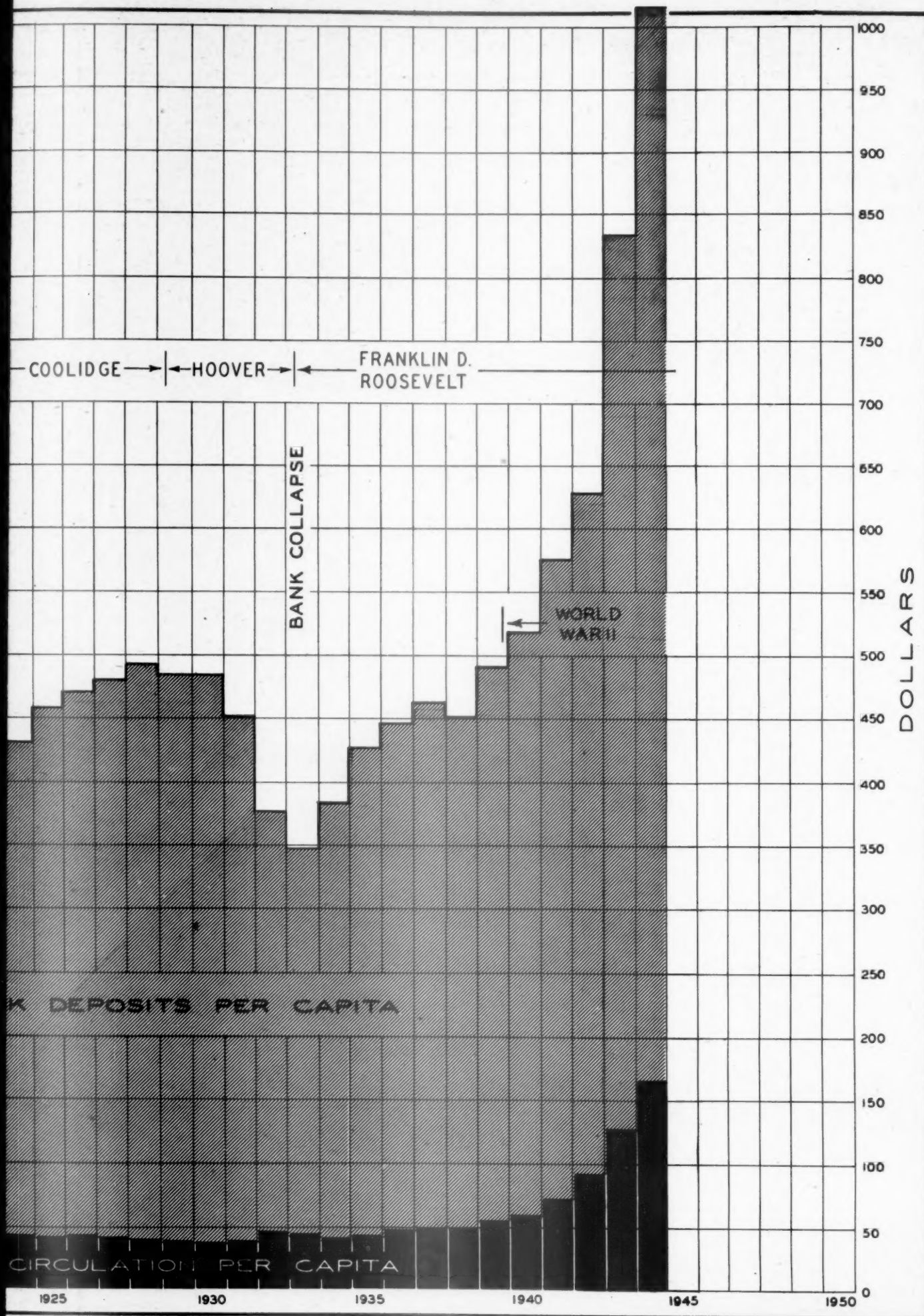
1900

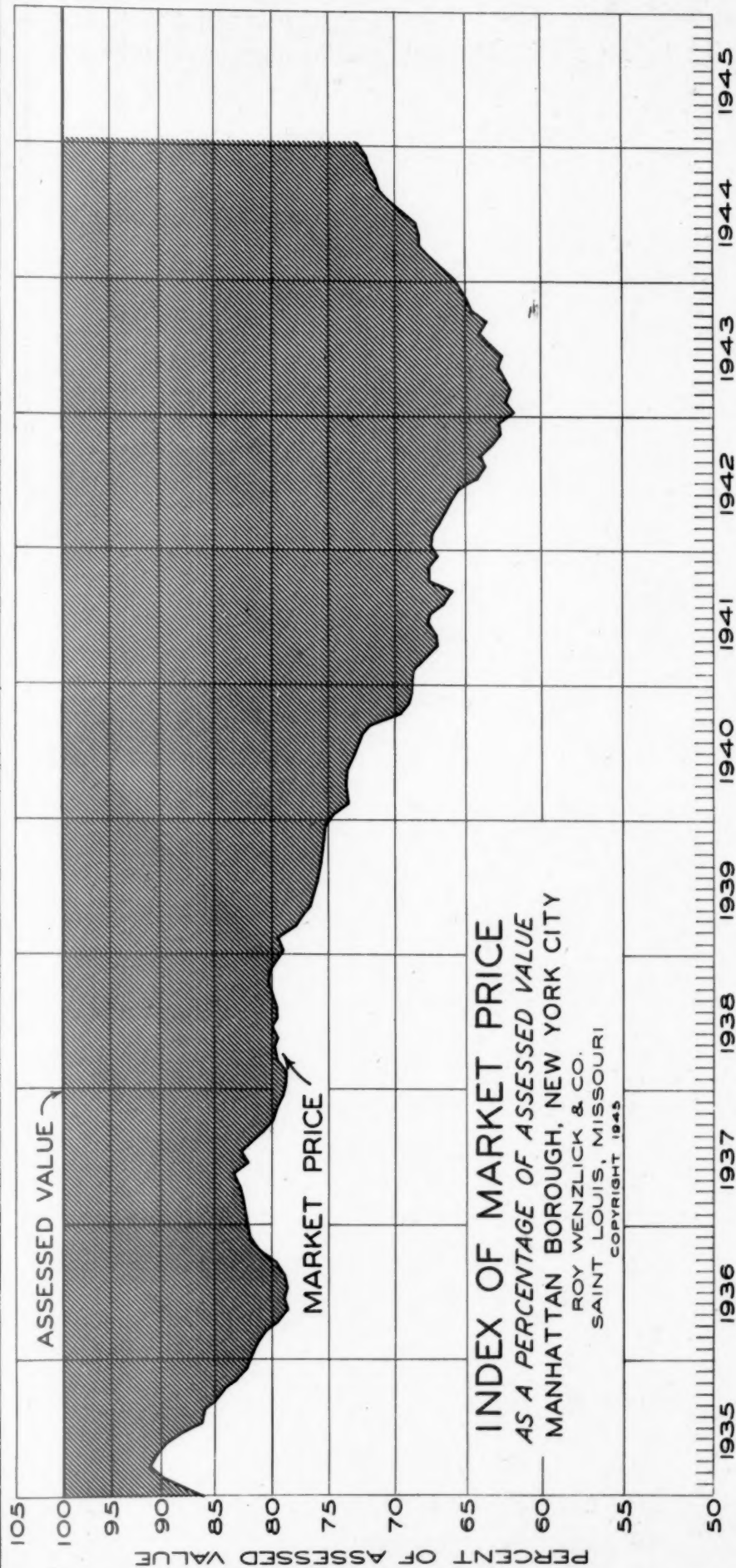
1905

1910

1915

1920





REAL ESTATE in the downtown district of every metropolitan city is badly over-assessed. Manhattan Island corresponds roughly to the central section of other metropolitan areas and we find that for many years its real estate has been carrying a very heavy tax load. The chart above shows the relationship of all open market sales of real estate in New York City from 1935 to 1945 to the assessed values of these properties. From 91 per cent of assessed value in the spring of 1935 the market price of the average property which has changed hands has fallen until it reached a low of 61.8 per cent in

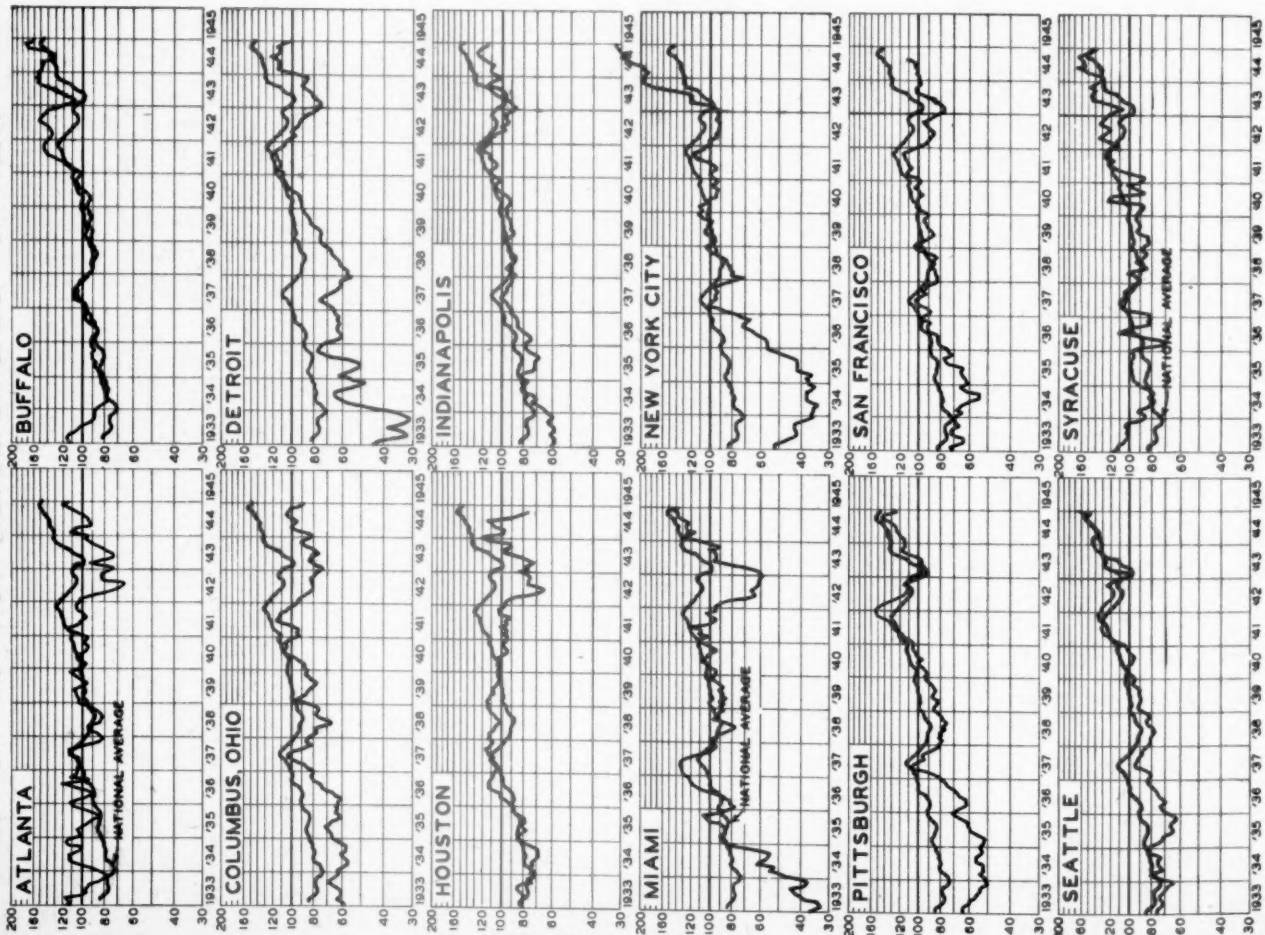
January 1943. It has since shown some recovery, with open market sales averaging at the present time 73 per cent of the present assessed values.

It should be remembered that during this period many assessed values have dropped meaning that market value of Manhattan real estate has dropped more than the relationship to assessed value would indicate.

From the behavior of this chart since 1943, it would appear that Manhattan real estate values have increased by from 15 to 20 per cent.

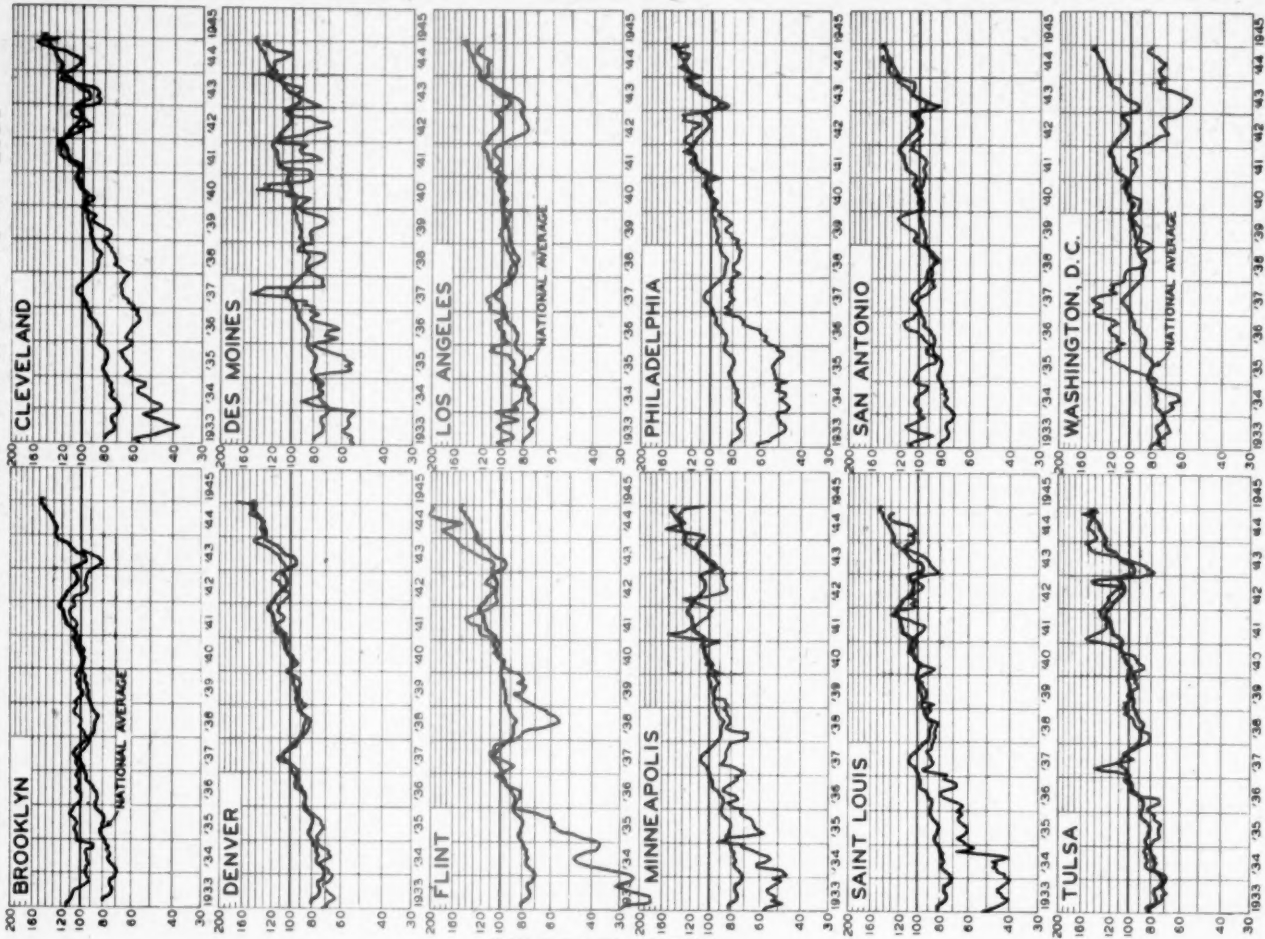
REAL ESTATE TRANSFERS IN PRINCIPAL CITIES

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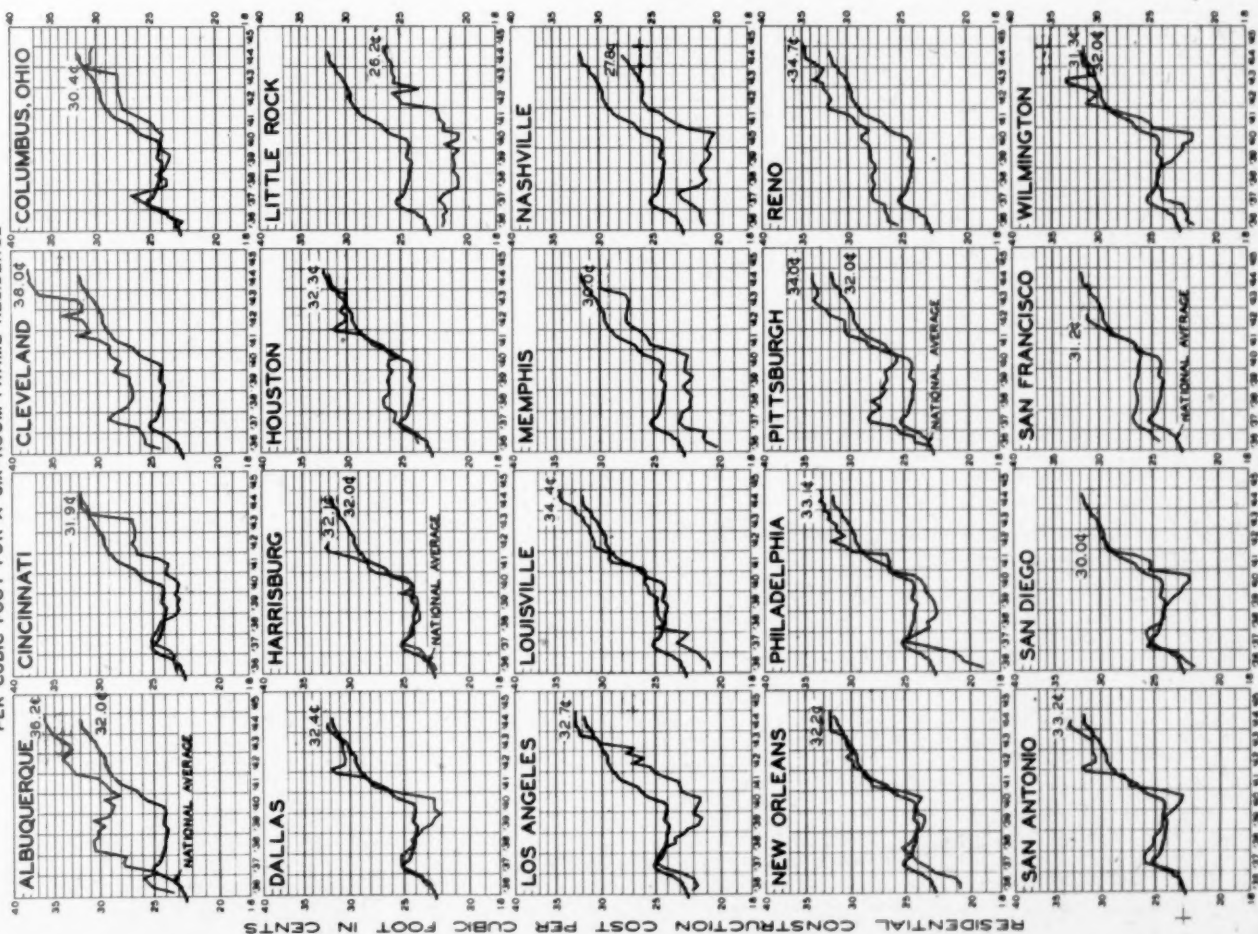


REAL ESTATE TRANSFERS IN PRINCIPAL CITIES

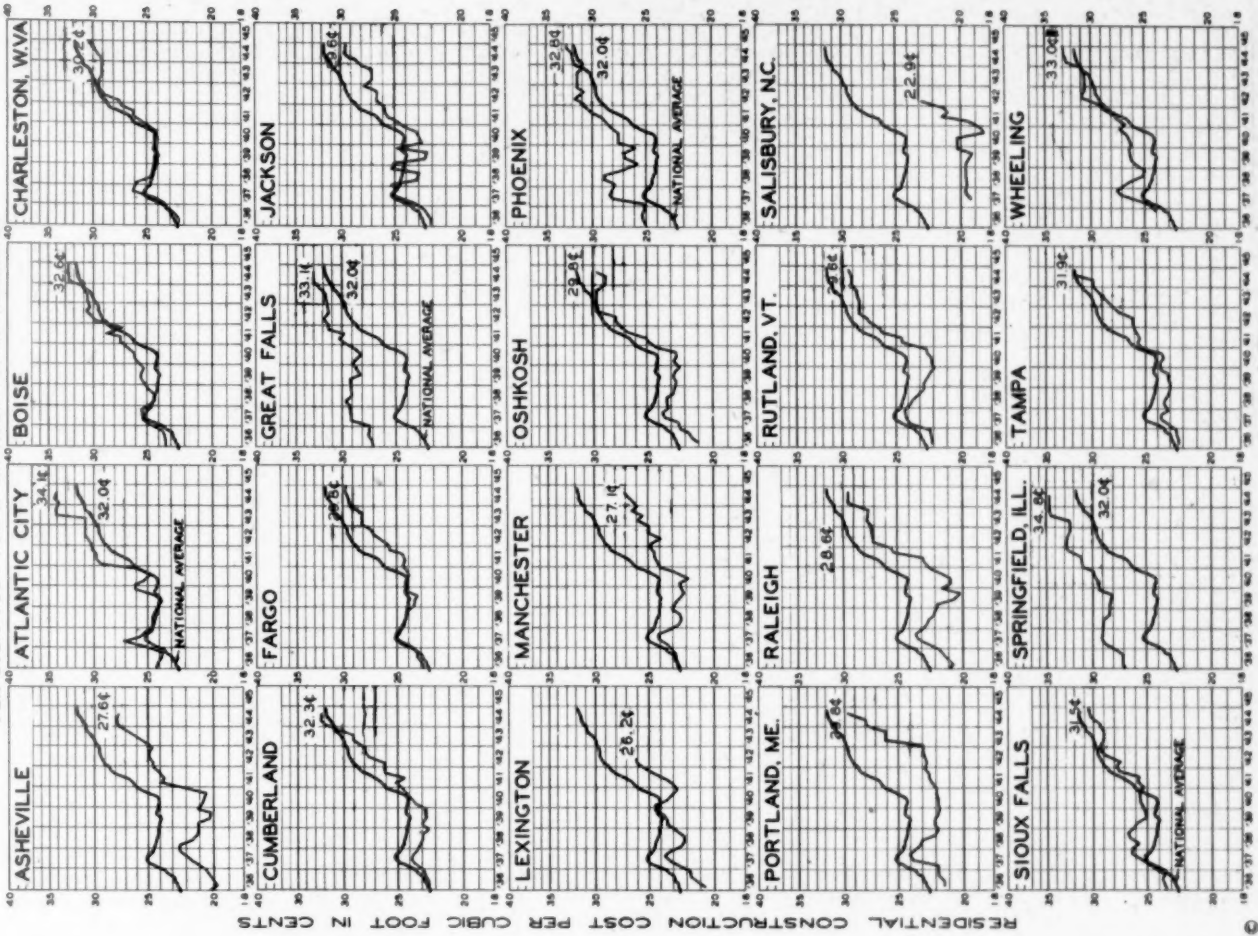
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RESIDENTIAL CONSTRUCTION COSTS PER CUBIC FOOT FOR A SIX-ROOM FRAME RESIDENCE



RESIDENTIAL CONSTRUCTION COSTS PER CUBIC FOOT FOR A SIX-ROOM FRAME RESIDENCE

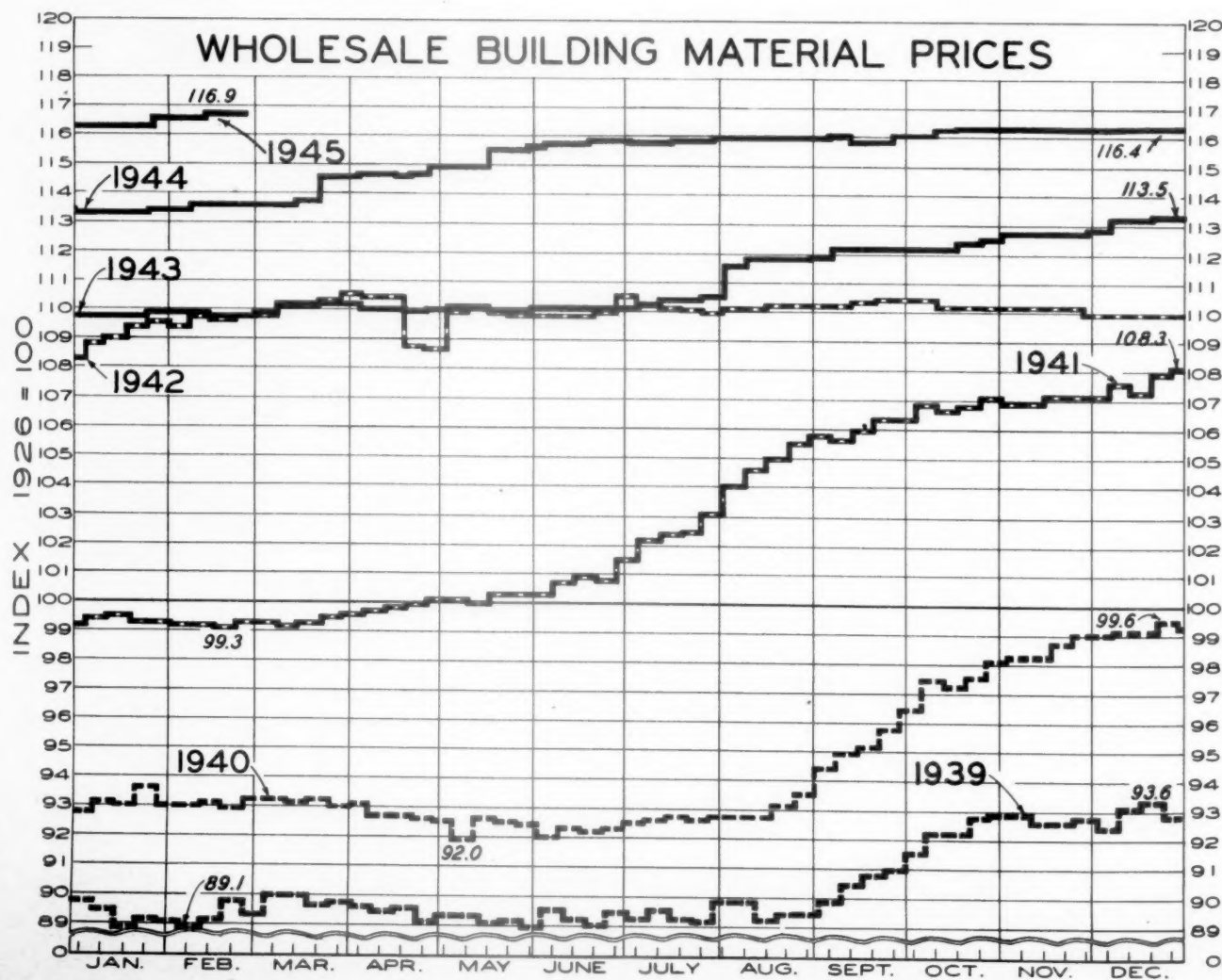


DWELLING UNITS CONSTRUCTED IN 48 STATES

THE number of new family accommodations built in all nonfarm communities of the 48 States and the District of Columbia is shown in the table below. Cumulative totals and twelve month moving totals are shown in blue for 1942 and 1944 and in red for 1943 and 1945.

THOUSANDS OF UNITS

	MONTHLY				CUMULATIVE				12 MONTH MOVING TOTAL			
	1942	1943	1944	1945	1942	1943	1944	1945	1942	1943	1944	1945
JANUARY	34.5	45.0	16.7	7.5	34.5	45.0	16.7	7.5	708.5	507.1	322.6	158.9
FEBRUARY	51.3	40.1	14.1		85.8	85.1	30.8		716.1	495.9	296.6	
MARCH	52.7	33.1	18.0		138.5	118.2	48.8		708.6	476.3	281.5	
APRIL	59.7	26.7	13.7		198.2	144.9	62.5		693.1	443.3	268.5	
MAY	60.6	33.6	16.4		258.8	178.5	78.9		683.0	416.3	251.3	
JUNE	46.3	21.7	18.2		305.1	200.2	97.1		652.1	391.7	247.8	
JULY	26.7	24.2	13.6		331.8	224.4	110.7		604.2	389.2	237.2	
AUGUST	27.5	27.9	12.3		359.3	252.3	123.0		561.9	389.6	221.6	
SEPTEMBER	40.4	24.2	10.4		399.7	276.5	133.4		535.3	373.4	207.8	
OCTOBER	32.2	28.6	11.2		431.9	305.1	144.6		511.3	369.8	190.4	
NOVEMBER	30.4	25.8	11.6		462.3	330.9	156.2		495.1	365.2	176.2	
DECEMBER	34.3	20.0	11.9		496.6	350.9	168.1		496.6	350.9	168.1	





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As I see it

THERE IS NO REASONABLE NORMAL VALUE

IN an effort to protect the veteran, Congress has written some rather peculiar definitions into the GI Bill. It is the common opinion that the sales prices of real estate are inflated at present, and the framers of the Act felt that the ex-serviceman was entitled to protection against inflated values. For this reason the appraiser is instructed to find "the reasonable normal value" of a property. In another place in the Act this is described as "the permanent value."

I have the utmost sympathy with the motives of the persons who wrote the Act, but unfortunately they were economic illiterates, as no such thing exists as "reasonable normal value," nor is any value of anything permanent.

In an attempt to show the impossibility of appraising "reasonable normal value" or "permanent value" I have prepared the table shown on the center spread of this report. This table assumes a typical single-family residence built on a typical lot and attempts to figure the approximate worth under average conditions after any designated number of years. The dates along the top are the years in which these assumed buildings were built. For example, a building built in 1913 after one year's depreciation would sell on the average in an ordinary market, assuming neither a housing shortage nor a great surplus, for one per cent less than the original cost of the house and lot. At the end of the second year, assuming the same conditions, this property would sell for 3 per cent less than the original cost, but at the end of the third year, in spite of accrued depreciation, the property would sell for 3 per cent more than its original cost. It is interesting to note that at the end of the seventh year the selling price in a balanced market would be 54 per cent above the original cost, in spite of seven years' accrued depreciation.

Actually, the variations in these years would be slightly greater than we have shown on the table, as 1920 was a year of housing shortages. The scarcity value of acceptable dwelling units in that year increased the market price above the 54 per cent addition to the original price. In the same fashion, the present loss in value shown on the table of 19 per cent from the original cost in 1913 would represent a loss in value which would be experienced in a market in which a balanced housing supply existed. Because of the high scarcity value of dwelling units in the present housing shortage, it is entirely probable that this 1913 house, in spite of thirty-two years' depreciation, would sell today for more than its original cost.

PERCENTAGE OF INCREASE FROM ORIGINAL COST OF TYPICAL RESIDENTIAL

YEAR BUILT	1913	1914	1915	1916	1917	1918	1919	1920	1921	1922	1923	1924	1925	1926	1927	1928
1	- 1	- 1	+ 6	+ 6	+ 5	+17	+15	-12	- 6	+ 7	+11	- 3	- 4	- 6	- 8	
2	- 3	+ 5	+14	+12	+23	+34	0	-18	0	+18	+ 7	- 6	-10	-13	-10	
3	+ 3	+12	+19	+31	+41	+18	- 6	-12	+11	+15	+ 3	-12	-16	-15	-19	
4	+10	+18	+40	+50	+24	+10	0	- 3	+ 8	+11	- 3	-19	-19	-24	-30	
5	+16	+37	+60	+32	+16	+18	+11	- 6	+ 3	+ 4	-10	-21	-27	-34	-34	
6	+35	+57	+40	+24	+24	+30	+ 8	- 9	- 3	- 4	-12	-29	-36	-38	-34	
7	+54	+37	+32	+32	+37	+27	+ 4	-15	-10	- 7	-22	-38	-40	-38	-30	
8	+35	+29	+40	+45	+33	+21	- 2	-21	-13	-16	-32	-42	-41	-35	-31	
9	+27	+38	+55	+42	+28	+14	-10	-24	-22	-27	-36	-42	-37	-35	-28	
10	+35	+52	+50	+36	+20	+ 6	-13	-31	-32	-32	-36	-39	-38	-33	-23	
11	+49	+48	+44	+28	+11	+ 3	-21	-40	-36	-32	-33	-40	-35	-28	-29	
12	+45	+42	+36	+18	+ 8	- 8	-31	-44	-36	-29	-34	-37	-32	-34	-29	
13	+39	+33	+25	+14	- 3	-20	-36	-44	-33	-29	-31	-33	-37	-34	-29	
14	+31	+23	+21	+ 3	-16	-25	-36	-42	-34	-27	-26	-38	-38	-33	-23	
15	+21	+19	+ 9	-10	-21	-25	-34	-43	-32	-22	-32	-39	-37	-28	-21	
16	+17	+ 7	- 5	-16	-22	-22	-34	-40	-27	-28	-33	-38	-32	-27	-25	
17	+ 5	- 6	-11	-17	-19	-24	-32	-36	-33	-28	-32	-33	-31	-30	-26	
18	- 8	-12	-12	-14	-20	-21	-27	-41	-33	-28	-26	-32	-34	-31	-25	
19	-14	-13	- 9	-15	-17	-15	-33	-42	-33	-22	-26	-36	-35	-30		
20	-15	-11	-10	-12	-12	-22	-34	-41	-27	-21	-29	-37	-34	?	?	
21	-13	-12	- 7	- 6	-18	-23	-33	-37	-27	-25	-31	-36	?	?	?	
22	-15	- 9	- 1	-14	-19	-22	-28	-37	-31	-27	-30	?	?	?	?	
23	-12	- 4	- 9	-15	-19	-17	-28	-40	-32	-26	?	?	?	?	?	
24	- 6	-11	-10	-14	-13	-17	-32	-41	-32	?	?	?	?	?	?	
25	-13	-12	- 9	- 8	-13	-21	-34	-41	?	?	?	?	?	?	?	
26	-14	-12	- 3	- 9	-18	-23	-33	?	?	?	?	?	?	?	?	
27	-14	- 6	- 4	-14	-20	-23	?	?	?	?	?	?	?	?	?	
28	- 9	- 7	-10	-16	-20	?	?	?	?	?	?	?	?	?	?	
29	-10	-13	-12	-17	?	?	?	?	?	?	?	?	?	?	?	
30	-16	-15	-13	?	?	?	?	?	?	?	?	?	?	?	?	
31	-18	-16	?	?	?	?	?	?	?	?	?	?	?	?	?	
32	-19	?	?	?	?	?	?	?	?	?	?	?	?	?	?	

The fundamental purpose of the table in this report is to show the impossibility of predicting future values on the basis of any past experience. It is quite apparent that the principal determinant of future value is future building costs, as the table would show that at the end of ten years buildings built in years which preceded radical increases in building cost increased greatly in value, while buildings built in years which preceded a drop in building costs decreased markedly in value over the same length of time. A

ASE OR DECREASE IN WORTH NTIAL PROPERTIES BUILT EACH YEAR SINCE 1913

	1918	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938	1939	1940	1941	1942	1943	1944
- 2	-11	-13	- 6	0	+ 6	0	+ 4	+ 7	- 8	+ 1	+ 2	+10	+ 3	- 4	0	+ 2	
-13	-22	-18	- 6	+ 6	+ 6	+ 4	+12	- 1	- 8	+ 2	+12	+13	- 1	- 4	+ 2	?	
-24	-27	-18	0	+ 6	+10	+11	+ 3	- 1	- 6	+12	+15	+ 8	- 1	- 2	?	?	
-28	-27	-13	- 1	+10	+18	+ 3	+ 3	0	+ 3	+15	+10	+ 8	0	?	?	?	
-29	-23	-14	+ 4	+18	+ 9	+ 3	+ 4	+10	+ 5	+10	+10	+10	?	?	?	?	
-25	-23	-10	+11	+ 9	+ 8	+ 4	+14	+13	+ 1	+10	+12	?	?	?	?	?	
-25	-20	- 4	+ 2	+ 9	+10	+14	+17	+ 8	+ 1	+11	?	?	?	?	?	?	
-22	-14	-11	+ 2	+10	+20	+16	+12	+ 7	+ 2	?	?	?	?	?	?	?	
-17	-21	-11	+ 3	+20	+23	+11	+11	+ 9	?	?	?	?	?	?	?	?	
-23	-21	-10	+13	+23	+18	+11	+13	?	?	?	?	?	?	?	?	?	
-24	-20	- 2	+15	+17	+17	+12	?	?	?	?	?	?	?	?	?	?	
-23	-13	0	+10	+17	+18	?	?	?	?	?	?	?	?	?	?	?	
-16	-12	- 5	+ 9	+18	?	?	?	?	?	?	?	?	?	?	?	?	
-14	-16	- 6	+10	?	?	?	?	?	?	?	?	?	?	?	?	?	
-19	-17	- 5	?	?	?	?	?	?	?	?	?	?	?	?	?	?	
-19	-16	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	
-18	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	
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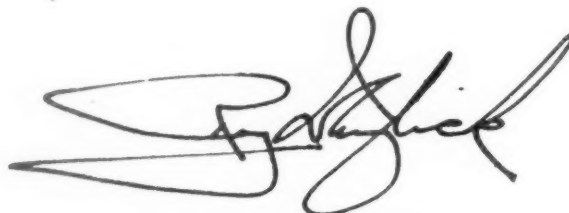
building built in 1914, right before the rise in building costs of the First World War, had increased in value by 52 per cent in ten years, while in contrast a building built in 1924 followed by drops in building costs for each of the succeeding ten years had decreased in value at the end of the ten-year period by 39 per cent. A building built in 1932, again before rather large increases in building costs, ten years later would be worth 23 per cent more than its original cost in a normal market.

No one knows what the future values of houses built in 1944 or 1945 will be. If building costs in the post-war period are higher than they are now, the values of all existing buildings will show a tendency to rise until the depreciated values of existing buildings are in the proper relationship to replacement cost new. If building costs fall in the post-war period, the values of all existing buildings will fall by a larger percentage, as these buildings will drop due not only to accrued depreciation and obsolescence, but also to the fact that they could be replaced each year for a smaller amount. It should always be remembered that original cost has nothing to do with value but that values are definitely influenced by the replacement cost of the unit in question.

If some entirely new building technique is developed which would cut 30 per cent from the cost of building a house, the values of all existing houses would show a tendency to drop by 30 per cent or more.

What "reasonable normal value" is for any building, therefore, in the opinion of any appraiser, depends entirely on his viewpoint of future building costs. If he believes that the forces of inflation will bring about higher building costs, the "reasonable normal value" of a piece of property today might even be above its market price, as was the case in 1915 and 1916. On the other hand, if the appraiser believes that government policies and new manufacturing techniques can lower the price level in the post-war period, bringing on a certain amount of deflation, he then would place the present "reasonable normal value" of a piece of property considerably below market price.

I doubt very seriously whether the average real estate appraiser called upon by the Veterans Bureau to make an appraisal of a home desired by a veteran is able to weigh accurately these opposing forces of inflation and deflation in arriving at an accurate judgment of what future values will be. I know personally many high officials in the government at Washington who disagree among themselves as to the outlook, and the disagreement among economists is also quite marked. My own opinion is that construction costs will be higher in the post-war period, as I believe that inflation cannot be avoided. My own opinion, based on this reasoning, would be that market price is below "reasonable normal value" - whatever that may be. "Permanent value" is so impossible a concept that nothing can be gained by discussing it.

A stylized, handwritten signature in black ink, appearing to read 'Roy Wenzlick'.

ROY WENZLICK

RESIDENTIAL CONSTRUCTION

1937 THROUGH 1944



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SAINT LOUIS